



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Debra Figone

**SUBJECT: 2011-2012 ORGANIZATIONAL AND
BUDGET PLANNING**

DATE: November 8, 2010

RECOMMENDATION

(A) Accept presentations and discuss:

- (1) Organizational Downsizing/Aligning Workload to Capacity
 - (a) Challenges of Organizational Downsizing
 - (b) Importance of Aligning Expectations to Capacity
 - (c) Major Drivers of Workload
 - (d) San José's Framework for Aligning Expectations
 - (e) Program Prioritization Resource
- (2) 2011-2012 Economic Outlook & Preliminary General Fund Forecast
- (3) Potential Strategies to Address the Preliminary 2011-2012 General Fund Shortfall and Beyond
 - (a) Control Labor Cost Escalation
 - (i) Annual Summary of Labor Negotiations & Recommendations for Upcoming Labor Negotiations
 - (ii) Retirement Reform Report from the General Fund Structural Deficit Elimination Plan Stakeholder Group
 - (b) Organizational & Service Restructuring
 - (i) Update on Transitioning Certain 2010-2011 One-Time Funded Services
 - (ii) Preliminary Review of Potential Services for Alternative Service Delivery
 - (iii) Identify Policy Reform Issues to Foster Development of Alternative Service Delivery

(B) Direct City Manager on 2011-2012 Recommendations for Upcoming Labor Negotiations and Support the City Manager on Reviewing Key Policy Issues

OUTCOME

To update the Mayor and City Council on 1) strategies to downsize the organization in order to align services with the resources available and 2) to begin early engagement and planning for the 2011-2012 General Fund Budget and beyond by reviewing key information and soliciting direction from the Mayor and City Council regarding the upcoming labor negotiations and support for reviewing key policy issues.

BACKGROUND

The City organization has undergone significant changes over the past nine years to address persistent General Fund budget gaps and shortfalls in many other City funds. During this period, General Fund shortfalls totaling \$565 million were closed through a combination of additional funding sources and expenditure reductions. The largest shortfall of \$118.5 million was solved in 2010-2011. During this nine-year period, due to extensive expenditure reductions, over 1,600 positions were eliminated city-wide (a 22% decline in the workforce), with approximately half of those positions eliminated in the first eight years and the remaining half eliminated in 2010-2011. The magnitude of the shortfalls has necessitated deep service cuts in all areas, including public safety, and contracting out of services previously provided by City employees. Looking forward, it is anticipated that the City will face another large General Fund budget shortfall in 2011-2012.

In addressing the severe budget shortfalls in recent years, the budget process has been expanded to incorporate additional public input and earlier engagement by the Administration and the City Council. As our City enters the tenth consecutive year of General Fund budget deficits, it is important to continue to build on these processes. The November 18 Special City Council meeting will serve as the starting point to frame the approaches and strategies that will be incorporated into the development of the 2011-2012 Proposed Budget.

The information below provides an overview of the topics that will be discussed at the November 18 City Council Meeting. Supplemental memoranda will be issued no later than Wednesday, November 10 and it is recommended that they be inserted into the appropriate tab of the binder distributed for this meeting. These reports will include a discussion of aligning workload to the capacity of a downsizing organization (to be inserted into Tab 1) and the recommendations for the upcoming labor negotiations (to be inserted into Tab 3).

ANALYSIS

Organizational Downsizing/Aligning Workload to Capacity – Tab 1

As part of addressing the 2010-2011 General Fund shortfall as well as shortfalls in other funds, the organization was reduced by over 660 positions. With this significant organizational downsizing in 2010-2011, the capacity to respond to service priorities in the short and long term has been

significantly impacted. The forthcoming supplemental memorandum (issued no later than Wednesday November 10, 2010) and the presentation at the Council Meeting will discuss challenges of organizational downsizing, importance of aligning expectations to capacity, major drivers of workload, the Administration's approach to aligning expectations to the reduced organizational capacity, and the use of Program Prioritization results to address the 2011-2012 General Fund shortfall.

2011-2012 Economic Outlook and Preliminary General Fund Forecast – Tab 2

At the November 18 meeting, staff will present several key indicators about the recent performance of the San Jose economy and its impact to the major revenue sources for the City's General Fund. The presentation framing the current state of the local economy will be distributed at the City Council Meeting.

The memorandum in Tab 2 presents a preliminary estimate of the 2011-2012 General Fund shortfall of \$70 million which is significantly higher than the latest estimate of \$41 million. This memorandum provides information on the revenue and expenditure assumptions, key drivers of the shortfall, and the budget development timeline. It should be noted that this Forecast is being developed during a time of continued economic uncertainty and with very limited revenue and expenditure data for 2010-2011. The preliminary Forecast is intended to provide an order of magnitude of the budget problems expected for 2011-2012 to assist in budget planning efforts. As additional information becomes available, changes to these estimates will likely be necessary and will be incorporated in to the formal 2012-2016 General Fund Forecast that is scheduled to be released in February 2011.

Budget Strategy: Control Labor Cost Escalation – Tab 3

In the afternoon of the Special Council Meeting, the Mayor and City Councilmembers will review and discuss potential strategies for addressing the 2011-2012 General Fund Budget shortfall and beyond. As part of this review, the Administration will present the Annual Summary of Labor Negotiations, summarize the Retirement Reform Report from the re-convened General Fund Structural Deficit Elimination Plan Stakeholder Group and provide recommendations for the upcoming labor negotiations cycle.

The Annual Summary of Labor Negotiations presents background information related to labor negotiations, a summary of bargaining unit information for those bargaining units that the City will be in negotiations with in January 2011, personnel cost information, and a summary of labor negotiations cost saving strategies. A memorandum on the recommendations for the upcoming labor negotiations will be issued no later than Wednesday, November 10.

Included in this tab is also a report titled "General Fund Structural Deficit Elimination Plan Stakeholder Group Re-Convening Regarding Retirement Reform," which summarizes the work of the task force.

Budget Strategy: Organizational and Service Restructuring – Tab 4

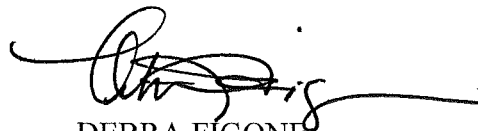
Tab 4 includes a memorandum transmitting a PowerPoint presentation that provides an update on transitioning one-time funded services, a listing of potential services to be subjected to a Service Delivery Evaluation per Council Policy 0-41, and identifies key policy issues to review for 2011-2012.

PUBLIC OUTREACH/INTEREST

- ☐ **Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- ☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- ☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although this memorandum does not meet any of the criteria listed above, it will be posted on the City's website as part of the November 18, 2010 Special City Council Meeting.

The City Manager's Office will reach out through email notification to neighborhood, labor and business leaders as well as City Boards and Commissions to ensure that they are aware of the November 18 Special City Council Meeting.


DEBRA FIGONE
City Manager

For questions this memorandum, please contact Edward K. Shikada, Assistant City Manager, at (408) 535-8190. For questions regarding the various memoranda identified in this overview memorandum, please refer these questions to the staff members identified in these individual memoranda.